



Atty. Dkt. No. 050851-0101

**IN THE UNITED STATES PATENT AND TRADEMARK OFFICE**

Applicant: Robert B. PHELPS  
Title: METHOD OF ENHANCING VALUE  
OF PENSION PLAN ASSETS  
Appl. No.: 10/636,125  
Filing Date: 8/7/2003  
Examiner: Vanel Frenel  
Art Unit: 3627  
Confirmation Number: 1568

<p><b>CERTIFICATE OF FACSIMILE TRANSMISSION</b> I hereby certify that this paper is being facsimile transmitted to the United States Patent and Trademark Office, Alexandria, Virginia on the date below.</p> <p>_____ (Printed Name)</p> <p>_____ (Signature)</p> <p>_____ (Date of Deposit)</p>
---

Mail Stop Amendment  
Commissioner for Patents  
P.O. Box 1450  
Alexandria, VA 22313-1450

Sir:

**DECLARATION OF ROBERT B. PHELPS  
UNDER 37 C.F.R. § 1.132 ON VALUATION OF LIFE SETTLEMENT CONTRACTS  
UNDER FASB AND ACTUARIAL PRESENT VALUE CALCULATION OPERATIONS**

Assistant Commissioner for Patents  
Washington, D.C. 20231

Dear Sir:

I, the undersigned Robert B. Phelps, an American citizen with an office at  
Cypress Capital Corporation, P.O. Box 58,289, New Orleans, LA 70158-8289, USA,  
hereby declare and state that:

Background

1. I am the inventor of the invention described and claimed in the above-captioned patent application. I am familiar with the claims and specification of the above-referenced application.

2. I am Managing Director of Cypress Capital Corporation, an independent municipal advisory firm representing public political subdivision clients in the Louisiana area. Indianola Development Company, LLC, is the assignee of this application.

3. Prior to forming Cypress Capital Corporation in 1990, I was employed by Howard, Weil, Labouisse, Friedrichs, Inc, New Orleans, LA, a regional broker/dealer as an investment banker in their Public Finance Department for several years in the late 1980s. Before joining Howard, Weil I was employed as an attorney at Cox, Huppenbauer & Osborne, New Orleans, LA, a law firm exclusively engaged in municipal finance practice, which I joined in 1979. I am a Graduate of Duke University and the Tulane University School of Law and a member of the Louisiana bar. Thus, I have twenty-nine years experience in the public finance industry, and have provided services to clients from the legal and financial perspective.

4. A material obligation borne by larger public entities I have represented has been the funding of pension plans for their employees. Pension plans are considered long-term debt and all my practices have involved long term debt issues.

5. The accounting treatment of activities undertaken by corporate entities and public entities differ. Activities of corporate entities (which may be publicly or privately held) are governed by the Financial Accounting Standards Board ('FASB'), including activities relating to their respective private pension funds for corporate employees. Activities of public political subdivisions, typically entities created by state statute performing governmental functions, are governed by an independent Governmental Accounting Standards Board ('GASB'), including activities relating to their respective public pension funds for public employees.

6. Activities relating to the acquisition and sale of life settlement contracts as an asset class are determined according to the standards of FASB or GASB depending upon which accounting regime governs the entity acquiring the asset – FASB for corporate entities and GASB for public entities. Valuation treatment options differ under the two regimes. The FASB

express rules for treatment of life settlement contracts are more restrictive. Public entities under GASB have no such express limitation on valuation of life settlement contracts.

7. Before 2006, the FASB rules required that the life settlement contract be valued as of the reporting date at the cash surrender value of the life settlement contract, or the contract value adjusted for the cost and any premiums paid during the previous period. See **Exhibit A**, the Financial Accounting Services FASB Technical Bulletin No. 85-4 issued November 10, 1985. For accounting purposes, a loss must be recorded, as the cost of the contract purchase price for the life settlement contracts and maintenance costs will exceed the cash surrender value of the life settlement contracts.

See also on this point, the Berkshire Hathaway Inc. 2004 Annual Report at page 22 (**Exhibit B**), which described the accounting treatment for life settlement contracts as “an accounting rule that mildly distorts our financial statements in a pain-today, gain tomorrow manner.”

See also on this point, the Berkshire Hathaway Inc. 2005 Annual Report at page 65 (**Exhibit C**), which described the accounting treatment for valuing life settlement contracts as the excess of cash paid to purchase these contracts over the cash surrender value at the date of purchase plus periodic maintenance costs, such as premiums necessary to keep the underlying policies in force. This calculation normally computes a loss, as the cost of the contract purchase price and maintenance costs will exceed the cash surrender value.

See also on this point, Form 10-Q for Berkshire Hathaway Inc. for Q/E 9/30/05 (**Exhibit D**). Form 10-Q reiterates the valuation process described in **Exhibits A-C**.

8. In 2006, FASB modified 85-4 and permitted more latitude in the valuation of life settlement contracts. See on this point the FASB STAFF POSITION No. FTB 85-4-1 (**Exhibit E**). Note the definition for a “life settlement contract” on page one thereof. In **Exhibit E** at page 2 it is explained that an investor may elect to account for investments in life settlement contracts using either an investment method or a fair value method. Under the investment method, an investor shall recognize the initial investment at the transaction price (contract purchase price)

plus direct external costs, and continuing costs such as policy premiums to keep the policy in force will be capitalized. A gain will not be realized until the insured dies. See paragraph number 6 of **Exhibit E**. If the fair value method is elected, then the investor shall recognize the initial investment at the transaction price. Then the investor shall re-measure the investment at fair value in its entirety at each reporting period (usually annually, but quarterly reports may be issued). See paragraph No. 8 of **Exhibit E**. There is no reference to probability of payment, i.e., 'probability of death,' as there is in the Actuarial Standards definition of Actuarial Present Value. Paragraph 17 of **Exhibit E** indicates that the fair valuation is keyed on life expectancy analysis performed on each individual insured rather than on an actuarial basis, which is a basis that projects mortality based on the experience of a pool of individuals. (The Social Security mortality tables, for example, are based on a pool of 100,000 individuals.)

9. A calculation operation comparing the two methods is provided in **Exhibit F**. This calculation operation comparison illustrates why the claimed operation results in a value transformation not disclosed or implemented in the prior art. **Exhibit F** discloses on the left side of the first page the assumptions for the calculation operations. The assumptions are:

- A) There is a death benefit of \$1000
- B) The purchase price is 20% of the death benefit, i.e., \$200
- C) The annual premiums are 4% of the death benefit, i.e., \$40
- D) The insureds age is 80 years old
- E) The life expectancy of the insured is 7 years

The Fair Value at the time of purchase is the purchase price (in our example \$200.) The Fair Value method requires increasing that value by some reasonably determined factor each reporting/valuation period. The factor that is used in our example is calculated by dividing one by the original life expectancy (1/7 or 14%) each year, multiplied by the original value--the transaction cost. The Fair Value calculation thus starts at the transaction purchase

price of \$200 and increases that value annually by 14% of the purchase price. The result of this annual calculation is shown in the Fair Value column on the right side of the page.

The Actuarial Present Value calculation operation, in contrast, is based on a probability of death. Going to the page marked “80” at the top, this page is the Death Probability Per Period for a Male Aged 80. The first horizontal line in the chart represents the probability for a male aged 80. This line indicates a Death Probability of 0.075760 based on a pool of 42,221 males with a life expectancy of 7.23 years. The Adjusted Death Probability is listed as 0.0757600. The Adjusted Death Probability is the probability of the 80 year old dying during any given future period (the total of all the annual Adjusted Death Probability figures adds up to 1.00). This Adjusted Death Probability calculation is based on the Death Probability figures from a given mortality table. The 2000 Social Security Period Life Table is used in this instance. A present value factor of 0.96618 is used for males with this life expectancy. The Actuarial Present Value calculation operation based on the “80” year old sheet, for each period, comprises: the Adjusted Death Probability times the Present Value Factor times the Death Benefit. The Present Value Factor in this calculation is  $1/(1+\text{interest rate})^{\text{Period}}$ . A similar calculation is made as each age is reached. In this regards, the page marked “81” in **Exhibit F** is the Death Probability Per Period for a Male Aged 81. The page marked “82” in **Exhibit F** is the Death Probability Per Period for a Male Aged 82.

The result of this calculation operation on an annual basis is shown in the last column on the first page of **Exhibit F**, labeled “Actuarial Present Value.” The difference between the “Actuarial Present Value” column and the “Fair Value” column on the first page of **Exhibit F** illustrates the value transformation generated by the system.

10. **CONCLUSION:** A life settlement held by a corporate entity or its pension system will be valued in accordance with the specific FASB rules for life settlement contracts (currently 85-5-1) on an investment method or fair value method, both of which methods limit the value by not incorporating probability of payment, i.e., the probability of death.

Additionally, there is a significant difference between a Fair Value determination under FASB, as compared to an Actuarial Present Value calculation operation performed in the context of the present claimed system, as shown in **Exhibit F**.

11. I hereby declare that all statements made herein, unless otherwise indicated, are of my own knowledge and are true, and that all statements made on information and belief are believed to be true; and further that these statements were made with the knowledge that willful false statements and the like so made are punishable by fine or imprisonment, or both, under 18 U.S.C. § 1001, and that such willful false statements can jeopardize the validity of any patent issuing from the captioned application or claiming the benefit of its priority.

Dated: 5 SEPTEMBER, 2008

Signed by:   
Robert B. Phelps

# Financial Accounting Series

## FASB Technical Bulletin

No. 85-4

**Title:** Accounting for Purchases of Life Insurance

**References:** AICPA Accounting Interpretation, "Accounting for Key-Man Life Insurance"  
FASB Concepts Statement No. 3, *Elements of Financial Statements of Business Enterprises*, paragraphs 19 and 123

### Question

1. How should an entity<sup>1</sup> account for an investment in life insurance?

### Response

2. The amount that could be realized under the insurance contract as of the date of the statement of financial position should be reported as an asset. The change in cash surrender or contract value during the period is an adjustment of premiums paid in determining the expense or income to be recognized under the contract for the period.

<sup>1</sup>The provisions of this Technical Bulletin apply to all entities that purchase life insurance in which the entity is either the owner or beneficiary of the contract, without regard to the funding objective of the purchase. Such purchases would typically include those intended to meet loan covenants or to fund deferred compensation agreements, buy-sell agreements, or postemployment death benefits. Purchases of life insurance by retirement plans that are subject to FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, are not addressed by this Technical Bulletin.



Financial Accounting Standards Board

**Effective Date and Transition**

3. The provisions of this Technical Bulletin are effective for insurance policies acquired after November 14, 1985.

The Financial Accounting Standards Board has authorized its staff to prepare FASB Technical Bulletins to provide guidance on certain financial accounting and reporting problems on a timely basis, pursuant to the procedures described in FASB Technical Bulletin No. 79-1 (Revised), *Purpose and Scope of FASB Technical Bulletins and Procedures for Issuance*. The provisions of Technical Bulletins need not be applied to immaterial items. Copyright © 1985 by the Financial Accounting Standards Board.

**Appendix****BACKGROUND**

4. In November 1970, the AICPA issued an Accounting Interpretation entitled "Accounting for Key-Man Life Insurance." That Accounting Interpretation identified the cash surrender value method as generally accepted accounting for purchases of life insurance. New types of life insurance contracts, new provisions in traditional contracts, and changes in the insurance industry have led some to question the 1970 Accounting Interpretation. In October 1984, the AICPA's Accounting Standards Executive Committee (AcSEC) approved an Issues Paper entitled "Accounting for Key-Person Life Insurance." In the Issues Paper, AcSEC reaffirmed support of the cash surrender value method as the only generally accepted method. The AcSEC position differed from the position of the AICPA Insurance Companies Committee, which supported use of a different method in certain circumstances. AcSEC was concerned that diversity would develop in practice because of the difference between those positions and requested that the FASB consider the matter.

5. A premium paid by a purchaser of life insurance serves a variety of purposes. A portion of the premium pays the insurer for assumption of mortality risk and provides for recovery of the insurer's contract acquisition, initiation, and maintenance

costs. Another portion of the premium contributes to the accumulation of contract values. The relative amounts of premium payment credited to various contract attributes change over time as the age of the insured party increases and as earnings are credited to previously established contract values.

6. An insurance contract is significantly different from most investment agreements. The various attributes of the policy could be obtained separately through term insurance and purchase of investments. The combination of benefits and contract values could not, however, typically be acquired absent the insurance contract. Continued protection from mortality risk and realization of scheduled increases in contract accumulation usually requires payment of future premiums.
7. The payment of insurance premiums may take a number of different forms. The insurance contract may be purchased through payment of a single premium, as opposed to the typical series of future premiums. Alternatively, the premium payments may be made through loans from the insurance company that are secured by policy cash surrender values. The pattern of premium payments is a decision that does not alter the underlying nature of the insurance contract.

**Consideration of Comments Received on Proposed Technical Bulletin**

8. A proposed Technical Bulletin, *Accounting for Business-Owned Life Insurance*, was released for comment on June 28, 1985. Forty-seven letters of comment were received on the proposed Technical Bulletin. Certain of the comments received and consideration of them are discussed in the following paragraphs.
9. Some respondents view the dominant objective of a life insurance contract to be investment. Subject to certain criteria evidencing an intent to continue the contract, they maintain that the contract meets the definition of an asset established in paragraph 19 of Concepts Statement 3, which states, "Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events" (footnote reference omitted). Those who hold this view suggested that such contracts should be accounted for using methods that result in reporting the investment in life insurance at amounts different from those stipulated in the contract.



10. This Technical Bulletin does not take that view. The current capacity to realize contract benefits is limited to settlement amounts specified in the contract. Additional amounts in excess of cash surrender value, which would be reported as assets under the various alternative accounting methods suggested, are created by future events, which typically include premium payments and earnings credited to contract amounts.

11. Paragraph 123 of Concepts Statement 3 discusses the occurrence of past events and the role of future events in the recognition of assets.

Since the transaction or event giving rise to the enterprise's right to the future economic benefit must already have occurred, the definition excludes from assets items that may in the future become an enterprise's assets but have not yet become its assets. An enterprise has no asset for a particular future economic benefit if the transactions or events that give it access to and control of the benefit are yet in the future.

12. Some respondents asserted that reporting an insurance investment at its realizable value represents an accounting based on liquidation values. Those respondents suggested that the entity acquiring an insurance contract is, in many cases, economically or contractually committed to maintain the contract in force. They maintained that such a commitment virtually assures that benefits in excess of premiums paid would be realized and that the policy should be reported on a basis other than its cash surrender value.

13. This Technical Bulletin does not accept that view. The amount realizable under an insurance investment represents settlement values agreed to by an independent buyer and seller. The variety of yields and contract accumulation patterns available in the insurance marketplace provides the buyer and seller a variety of insurance and settlement options. There is no compelling justification to depart from the recording of such contracts based on agreed provisions. The commitment referred to by respondents is, in the staff's view, a commitment to ensure that assets are available to meet contractual obligations. The presence of such a commitment does not change the measurement of the asset that is expected to satisfy the obligation.

14. Some respondents asserted that policy features, most notably the business exchange rider, were significant factors in determining the proper accounting for the policy. The business exchange rider allows a company to use values in an existing policy to insure a different employee when the originally insured employee leaves the company. They maintain that this feature gives the employer the ability to transfer the contract freely and enhances the employer's ability to realize the future value of the investment. They further maintain that the increased probability of realizing future values should lead to the reporting of amounts in excess of cash surrender value.

15. This Technical Bulletin rejects that view. The business exchange rider is a significant development in the design of business insurance products and reduces additional policy costs if a covered employee leaves the company. Such a provision does not affect the realization of future benefits under the insurance contract, nor does it change the traditional underwriting decisions involved in insuring a new life. Instead, the provision only reduces the cost of obtaining those benefits by allowing a new employee to be insured without the costs that are typically associated with obtaining a new policy.

FINANCIAL ACCOUNTING SERIES (ISSN 0149-8452) is published monthly except for occasional special issues by the Financial Accounting Foundation. Second-class postage paid at Stamford, CT and at additional mailing offices. The full subscription rate is \$115 per year. POSTMASTER: Send address changes to Financial Accounting Series, High Ridge Park, P.O. Box 3821, Stamford, CT 06905-0821.

**BERKSHIRE HATHAWAY INC.**

**2004 ANNUAL REPORT**

**TABLE OF CONTENTS**

Business Activities.....	Inside Front Cover
Corporate Performance vs. the S&P 500 .....	2
Chairman's Letter* .....	3
Selected Financial Data For The Past Five Years .....	27
Acquisition Criteria .....	28
Report of Independent Registered Public Accounting Firm.....	28
Consolidated Financial Statements .....	29
Management's Report on Internal Control Over Financial Reporting .....	56
Management's Discussion .....	57
Owner's Manual .....	73
Common Stock Data and Corporate Governance Matters.....	79
Operating Companies .....	80
Directors and Officers of the Company .....	Inside Back Cover

\*Copyright © 2005 By Warren E. Buffett  
All Rights Reserved

At our sessions, I tell the newcomers the story of the Tennessee group and its spotting of Clayton Homes. I do this in the spirit of the farmer who enters his hen house with an ostrich egg and admonishes the flock: "I don't like to complain, girls, but this is just a small sample of what the competition is doing." To date, our new scouts have not brought us deals. But their mission in life has been made clear to them.

7. You should be aware of an accounting rule that mildly distorts our financial statements in a pain-today, gain-tomorrow manner. Berkshire purchases life insurance policies from individuals and corporations who would otherwise surrender them for cash. As the new holder of the policies, we pay any premiums that become due and ultimately – when the original holder dies – collect the face value of the policies.

The original policyholder is usually in good health when we purchase the policy. Still, the price we pay for it is always well above its cash surrender value ("CSV"). Sometimes the original policyholder has borrowed against the CSV to make premium payments. In that case, the remaining CSV will be tiny and our purchase price will be a large multiple of what the original policyholder would have received, had he cashed out by surrendering it.

Under accounting rules, we must immediately charge as a realized capital loss the excess over CSV that we pay upon purchasing the policy. We also must make additional charges each year for the amount by which the premium we pay to keep the policy in force exceeds the increase in CSV. But obviously, we don't think these bookkeeping charges represent economic losses. If we did, we wouldn't buy the policies.

During 2004, we recorded net "losses" from the purchase of policies (and from the premium payments required to maintain them) totaling \$207 million, which was charged against realized investment gains in our earnings statement (included in "other" in the table on page 17). When the proceeds from these policies are received in the future, we will record as realized investment gain the excess over the then-CSV.

8. Two post-bubble governance reforms have been particularly useful at Berkshire, and I fault myself for not putting them in place many years ago. The first involves regular meetings of directors without the CEO present. I've sat on 19 boards, and on many occasions this process would have led to dubious plans being examined more thoroughly. In a few cases, CEO changes that were needed would also have been made more promptly. There is no downside to this process, and there are many possible benefits.

The second reform concerns the "whistleblower line," an arrangement through which employees can send information to me and the board's audit committee without fear of reprisal. Berkshire's extreme decentralization makes this system particularly valuable both to me and the committee. (In a sprawling "city" of 180,000 – Berkshire's current employee count – not every sparrow that falls will be noticed at headquarters.) Most of the complaints we have received are of "the guy next to me has bad breath" variety, but on occasion I have learned of important problems at our subsidiaries that I otherwise would have missed. The issues raised are usually not of a type discoverable by audit, but relate instead to personnel and business practices. Berkshire would be more valuable today if I had put in a whistleblower line decades ago.

9. Charlie and I love the idea of shareholders thinking and behaving like owners. Sometimes that requires them to be pro-active. And in this arena large institutional owners should lead the way.

So far, however, the moves made by institutions have been less than awe-inspiring. Usually, they've focused on minutiae and ignored the three questions that truly count. First, does the company have the right CEO? Second, is he/she overreaching in terms of compensation? Third, are proposed acquisitions more likely to create or destroy per-share value?

**BERKSHIRE HATHAWAY INC.**

**2005 ANNUAL REPORT**

**TABLE OF CONTENTS**

Business Activities.....	Inside Front Cover
Corporate Performance vs. the S&P 500 .....	2
Chairman’s Letter* .....	3
“The Security I Like Best” – An Article About GEICO from 1951 .....	24
Acquisition Criteria .....	25
Report of Independent Registered Public Accounting Firm.....	25
Consolidated Financial Statements.....	26
Management’s Report on Internal Control Over Financial Reporting .....	54
Selected Financial Data For The Past Five Years .....	55
Management’s Discussion .....	56
Owner’s Manual .....	74
Common Stock Data and Corporate Governance Matters.....	79
Operating Companies .....	80
Directors and Officers of the Company .....	Inside Back Cover

\*Copyright © 2006 By Warren E. Buffett  
All Rights Reserved

### Investment and Derivative Gains/Losses

A summary of investment and derivative gains and losses follows. Dollar amounts are in millions.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Investment gains/losses from -			
Sales and other disposals of investments -			
Insurance and other .....	\$5,831	\$1,527	\$2,873
Finance and financial products .....	544	61	338
Other-than-temporary impairments.....	(114)	(19)	(289)
Life settlement contracts .....	(82)	(207)	—
Other .....	<u>17</u>	<u>267</u>	<u>374</u>
	<u>6,196</u>	<u>1,629</u>	<u>3,296</u>
Derivative gains/losses from -			
Foreign currency forward contracts .....	(955)	1,839	825
Other .....	<u>253</u>	<u>21</u>	<u>—</u>
	<u>(702)</u>	<u>1,860</u>	<u>825</u>
Gains/losses before income taxes and minority interests .....	5,494	3,489	4,121
Income taxes and minority interests.....	<u>1,964</u>	<u>1,230</u>	<u>1,392</u>
Net gains/losses .....	<u>\$3,530</u>	<u>\$2,259</u>	<u>\$2,729</u>

Investment gains or losses are recognized upon the sales of investments or as otherwise required under GAAP. The timing of realized gains or losses from sales can have a material effect on periodic earnings. However, such gains or losses usually have little, if any, impact on total shareholders' equity because most equity and fixed maturity investments are carried at fair value, with the unrealized gain or loss included as a component of other comprehensive income.

For many years, Berkshire held an investment in common stock of The Gillette Company ("Gillette"). The Procter & Gamble Company ("PG") completed its acquisition of Gillette on October 1, 2005. On that date, PG issued 0.975 shares of common stock for each outstanding share of Gillette common stock. Berkshire recognized a non-cash pre-tax investment gain of approximately \$5 billion upon the conversion of the Gillette shares for PG shares. Berkshire's management does not regard the gain that was recorded, as required by GAAP, as meaningful. Berkshire intends to hold the shares of PG just as it has held the Gillette shares. The gain recognized for financial reporting purposes is deferred for income tax purposes. The transaction essentially had no effect on Berkshire's consolidated shareholders' equity because the gain included in earnings in the fourth quarter was accompanied by a corresponding reduction of unrealized investment gains included in accumulated other comprehensive income as of September 30, 2005.

The other-than-temporary impairment losses reflected in the table above represent the adjustment of cost to fair value when, as required by GAAP, management concludes that the investment's decline in value below cost is other than temporary. The impairment loss represents a non-cash charge to earnings. See Note 1(d) to the Consolidated Financial Statements for a summary of the factors considered in the judgment process. Gains and losses from the ultimate sale of securities in which other-than-temporary impairments were previously recorded are included in sales of investments.

Prior to January 1, 2004, Berkshire accounted for investments in life settlement contracts on the cost basis, which included the initial purchase price plus subsequent periodic maintenance costs. Beginning in 2004, as a result of obtaining information that suggested the SEC believed a different accounting method should be used, life settlement investments are accounted for under FASB Technical Bulletin ("FTB") 85-4 "Accounting for Purchases of Life Insurance." Under FTB 85-4, the life settlement contracts are carried at the cash surrender value of the contract. The excess of the cash paid to purchase these contracts over the cash surrender value at the date of purchase is recognized as a loss immediately and periodic maintenance costs, such as premiums necessary to keep the underlying policies in force, are charged to earnings immediately. The pre-tax loss in 2004 included \$73 million with respect to life settlement contracts held at December 31, 2003. Despite the accounting loss recorded for these contracts, management believes the current value of the contracts is no less than the cost basis and believes these contracts will produce satisfactory earnings.

Derivative gains and losses from foreign currency forward contracts arise as the value of the U.S. dollar changes against certain foreign currencies. Small changes in certain foreign currency exchange rates produce material changes in the fair value of these contracts and consequently can produce exceptional volatility in reported earnings. The potential for such volatility declined in 2005 as the notional value of open contracts declined approximately \$7.6 billion to \$13.8 billion as of December 31, 2005. During 2005, the value of most foreign currencies decreased relative to the U.S. dollar. Thus, forward contracts produced pre-tax losses. Conversely, the value of many foreign currencies rose relative to the U.S. dollar in 2004 and 2003, and Berkshire's contract positions produced significant pre-tax gains.

During 2004 and 2005, Berkshire has also entered into other derivative contracts pertaining to credit default risks of other entities as well as equity price risk associated with major equity indexes. Such contracts are carried at estimated fair value and the change in estimated fair value is included in earnings in the period of the change. These contracts are not traded on an exchange and independent market prices are not consistently available. Accordingly, considerable judgment is required in estimating fair value.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)****Investment Gains/Losses**

A summary of investment gains and losses follows. Dollar amounts are in millions.

	<u>Third Quarter</u>		<u>First Nine Months</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Investment gains/losses from -				
Sales of investments -				
Insurance and other.....	\$ 270	\$ 303	\$ 698	\$ 813
Finance and financial products .....	341	35	544	58
Other-than-temporary impairments.....	(10)	(3)	(55)	(15)
Foreign currency forward contracts .....	29	412	(897)	207
Life settlement contracts .....	(16)	(22)	(68)	(154)
Other.....	<u>127</u>	<u>42</u>	<u>154</u>	<u>230</u>
Investment gains/losses before income taxes and minority interests .....	741	767	376	1,139
Income taxes and minority interests.....	<u>261</u>	<u>249</u>	<u>133</u>	<u>378</u>
Net investment gains/losses .....	<u>\$ 480</u>	<u>\$ 518</u>	<u>\$ 243</u>	<u>\$ 761</u>

Prior to January 1, 2004, Berkshire accounted for investments in life settlement contracts on the cost basis. Therefore, the cost of the investment included the initial purchase price plus periodic maintenance costs. Beginning in 2004, as a result of obtaining information which suggested that the SEC believed that a different accounting method should be used, these investments are being accounted for under FASB Technical Bulletin ("FTB") 85-4 "Accounting for Purchases of Life Insurance." Under FTB 85-4, the carrying value of each contract at purchase and at the end of each reporting period is equal to the cash surrender value of the contract. Cash paid to purchase these contracts that is in excess of the cash surrender value at the date of purchase is recognized as a loss immediately and periodic maintenance costs, such as premiums necessary to keep the underlying policy in force, are charged to earnings immediately. The life insurance benefits are payable to the Company. The pre-tax loss in the first nine months of 2004 included \$73 million related to life settlement contracts held at December 31, 2003. Despite the accounting loss recorded for these contracts, management views these contracts to have a current value no less than the cost paid for the policies plus any subsequent maintenance costs and believes these contracts will produce satisfactory earnings. In 2005 the FASB proposed a staff position ("FSP") which addresses investments in life settlement contracts. If the proposed FSP is adopted, Berkshire's accounting for life settlement contracts will change to the cost method, which would result in the reversal of essentially all of the losses recorded in 2004 and 2005.

Gains and losses from foreign currency forward contracts arise as the value of the U.S. dollar changes against certain foreign currencies. Small changes in certain foreign currency exchange rates can produce material changes in the fair value of these contracts given the relatively large net notional value of Berkshire's open contracts (\$16.5 billion as of September 30, 2005) and consequently, may produce exceptional volatility in reported earnings in a given period. During the first nine months of 2005, the value of most foreign currencies decreased relative to the U.S. dollar. Thus, forward contracts produced pre-tax losses in 2005 of \$897 million for the first nine months. Correspondingly, over the first nine months of 2004, the value of many foreign currencies rose relative to the U.S. dollar, and Berkshire's contract positions produced a pre-tax gain of \$207 million. Berkshire first began "shorting" the U.S. dollar in 2002 and since inception in 2002 through September 30, 2005, has recognized pre-tax gains of \$2.1 billion from foreign currency forward contracts.

For many years, Berkshire has held an investment in common stock of The Gillette Company ("Gillette"). On January 28, 2005, The Procter & Gamble Company ("PG") announced it had signed an agreement to acquire 100% of Gillette. Under the terms of the agreement, PG agreed to issue 0.975 shares of its common stock for each outstanding share of Gillette common stock. The transaction closed on October 1, 2005. Accordingly, Berkshire will recognize a non-cash pre-tax investment gain of approximately \$5 billion upon the conversion of the Gillette shares for PG shares. Berkshire's management does not regard the gain that will be recorded, as required by GAAP, as meaningful. Berkshire intends to hold the shares of PG just as it has held the Gillette shares. The gain recognized for financial reporting purposes will be deferred for income tax purposes. The transaction will have no effect on Berkshire's consolidated shareholders' equity because the gain included in earnings in the fourth quarter will be accompanied by a corresponding reduction of unrealized investment gains included in accumulated other comprehensive income as of September 30, 2005.

## **FASB STAFF POSITION**

**No. FTB 85-4-1**

**Title:** Accounting for Life Settlement Contracts by Third-Party Investors

**Date Posted:** March 27, 2006

### **Introduction**

1. This FASB Staff Position (FSP) provides initial and subsequent measurement guidance and financial statement presentation and disclosure guidance for investments by third-party investors in life settlement contracts. This FSP also amends certain provisions of FASB Technical Bulletin No. 85-4, *Accounting for Purchases of Life Insurance*, and FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

### **Background and Scope**

2. A life settlement contract for purposes of this FSP is a contract between the owner of a life insurance policy (the policy owner) and a third-party investor (investor) and has the following characteristics:

- a. The investor does not have an insurable interest (an interest in the survival of the insured, which is required to support the issuance of an insurance policy).
- b. The investor provides consideration to the policy owner of an amount in excess of the current cash surrender value of the life insurance policy.
- c. The contract pays the face value of the life insurance policy to an investor when the insured dies.

This FSP addresses both transactions in which a broker facilitates settlement transactions between the policy owner and the investor, and transactions that do not involve a broker.

3. Prior to the issuance of this FSP, an investor in a life settlement contract accounted for the investment in accordance with Technical Bulletin 85-4, which requires that the amount that could be realized under the insurance contract be reported as an asset. Application of Technical Bulletin 85-4 results in the investor expensing, on the date of purchase, the excess of the purchase price of the life settlement contract over the cash surrender value of the underlying insurance policy.

### **Issue**

4. Questions have arisen as to the appropriateness of applying the guidance in Technical Bulletin 85-4 to life settlement contracts. An owner of a life insurance policy may enter into a life insurance contract for a variety of reasons including estate planning, compensation arrangements, and investing purposes. However, many constituents

believe that for life settlement contracts acquired for investing purposes, using the cash surrender value fails to reflect the economic substance of the investing activities.

### **FASB Staff Position**

5. An investor may elect to account for its investments in life settlement contracts using either the investment method or the fair value method. The election shall be made on an instrument-by-instrument basis and is irrevocable. The election shall be supported by concurrent documentation or a preexisting documented policy for automatic election.

### **Investment Method**

6. Under the investment method, an investor shall recognize the initial investment at the transaction price plus all initial direct external costs. Continuing costs (policy premiums and direct external costs, if any) to keep the policy in force shall be capitalized. The investor shall not recognize a gain until the insured dies, at which time the investor shall recognize in earnings (or other performance indicators for entities that do not report earnings) the difference between the carrying amount of a life settlement contract and the life insurance proceeds of the underlying life insurance policy.

7. An investor shall test an investment in a life settlement contract for impairment if the investor becomes aware of new or updated information that indicates that the expected proceeds from the insurance policy will not be sufficient to recover the carrying amount of the investment plus anticipated undiscounted future premiums and capitalizable direct external costs, if any, when the insured dies. Factors include, but are not limited to, a change in expected mortality and a change in the creditworthiness of the issuer of the underlying insurance policy. A change in interest rates would not of itself require an investment in a life settlement contract to be tested for impairment. An investor shall recognize an impairment loss if the expected undiscounted cash inflows (typically, the insurance proceeds) are less than the carrying amount of the investment plus anticipated undiscounted future premiums and capitalizable direct external costs, if any. If an impairment loss is recognized, the investment shall be written down to fair value. The fair value measurement shall consider current interest rates.

### **Fair Value Method**

8. Under the fair value method, an investor shall recognize the initial investment at the transaction price. In subsequent periods, the investor shall remeasure the investment at fair value in its entirety at each reporting period and shall recognize changes in fair value in earnings (or other performance indicators for entities that do not report earnings) in the period in which the changes occur. The investor should account for premiums paid and life insurance proceeds received on the same financial reporting line as the changes in fair value are reported.



## **Financial Statement Presentation**

### **Presentation on the Statement of Financial Position**

9. An investor shall report its investments that are remeasured at fair value on the face of the statement of financial position separately from those accounted for under the investment method. To accomplish that separate reporting, an investor may either:

- a. Display separate line items on the statement of financial position for the fair value method and investment method carrying amounts; or
- b. Present the aggregate of those fair value method and investment method carrying amounts and parenthetically disclose the amount of those investments accounted for under the fair value method included in the aggregate amount.

### **Presentation in the Income Statement**

10. An investor shall report the investment income from its investments in life settlement contracts that are remeasured at fair value on the face of the income statement separately from the investment income from those accounted for under the investment method. To accomplish that separate reporting, an investor may either:

- a. Display separate line items on the income statement for the investment income from the investments in life settlement contracts that are accounted for under the fair value method and investment method; or
- b. Present the aggregate of the investment income in life settlement contracts and parenthetically disclose the investment income from those investments accounted for under the fair value method that are included in the aggregate amount.

### **Presentation in the Statement of Cash Flows**

11. An investor shall classify cash receipts and cash payments related to life settlement contracts pursuant to FASB Statement No. 95, *Statement of Cash Flows* (as amended), based on the nature and purpose for which the life settlements were acquired.

## **Disclosure Requirements**

12. An investor shall disclose its accounting policy for life settlement contracts including the classification of cash receipts and cash disbursements in the statement of cash flows. The disclosure requirements in paragraphs 13–19 do not eliminate disclosure requirements included in other U.S. generally accepted accounting principles pronouncements, including other disclosure requirements on the use of fair value.

**Investment Method**

13. An investor shall disclose the following for life settlement contracts accounted for under the investment method based on the remaining life expectancy for each of the first five succeeding years from the date of the statement of financial position and thereafter, as well as in the aggregate:

- a. The number of life settlement contracts
- b. The carrying value of the life settlement contracts
- c. The face value (death benefits) of the life insurance policies underlying the contracts.

14. An investor shall disclose the life insurance premiums anticipated to be paid for each of the five succeeding fiscal years to keep the life settlement contracts in force as of the date of the most recent statement of financial position presented.

15. If the investor becomes aware of new or updated information that causes it to change its expectations on the timing of the realization of proceeds from the investments in life settlement contracts, the investor shall disclose the nature of the information and the related effect on the timing of the realization of proceeds from the life settlement contracts. This includes disclosing significant changes to the amounts disclosed in accordance with paragraph 13 of this FSP. However, an investor shall not be required to actively seek out new or updated information to update the assumptions used in determining the remaining life expectancy of the life settlement contracts.

**Fair Value Method**

16. An investor shall disclose the method(s) and significant assumptions used to estimate the fair value of investments in life settlement contracts, including any mortality assumptions.

17. An investor shall disclose the following for life settlement contracts accounted for under the fair value method based on remaining life expectancy for each of the first five succeeding years from the date of the statement of financial position and thereafter, as well as in the aggregate:

- a. The number of life settlement contracts
- b. The carrying value of the life settlement contracts
- c. The face value (death benefits) of the life insurance policies underlying the contracts.

18. The investor shall disclose the reasons for changes in its expectation of the timing of the realization of the investments in life settlement contracts. This includes disclosing significant changes to the amounts disclosed in accordance with paragraph 17 of this FSP.

19. An investor shall disclose the following for each reporting period presented in the income statement:

- a. The gains or losses recognized during the period on investments sold during the period
- b. The unrealized gains or losses recognized during the period on investments that are still held at the date of the statement of financial position.

**Amendment to Technical Bulletin 85-4**

20. Technical Bulletin 85-4 is amended as follows: [Added text is underlined.]

- a. Footnote 1:

The provisions of this Technical Bulletin apply to all entities that purchase life insurance in which the entity is either the owner or beneficiary of the contract, without regard to the funding objective of the purchase other than life settlement contracts referred to in the last sentence of this paragraph. Such purchases would typically include those intended to meet loan covenants or to fund deferred compensation agreements, buy-sell agreements, or postemployment death benefits. Purchases of life insurance by retirement plans that are subject to FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, are not addressed by this Technical Bulletin. A purchase of a life settlement contract that meets the scope requirement of FASB Staff Position FTB 85-4-1, "Accounting for Life Settlement Contracts by Third-Party Investors," should be accounted for under FSP FTB 85-4-1 and is not addressed by this Technical Bulletin.

**Amendment to Statement 133**

21. Statement 133 is amended as follows: [Added text is underlined and ~~deleted text is struck out~~.]

- a. Paragraph 10(g), as amended:

*Investments in life insurance.* A policyholder's investment in a life insurance contract that is accounted for under FASB Technical Bulletin No. 85-4, *Accounting for Purchases of Life Insurance*, or FASB Staff Position FTB 85-4-1, "Accounting for Life Settlement Contracts by Third-Party Investors," is not subject to this Statement. ~~The exception in this subparagraph affects only the accounting by the policyholder; it~~ This does not affect the accounting by the issuer of the life insurance contract.

### **Effective Date and Transition**

22. The guidance in this FSP shall be applied to fiscal years beginning after June 15, 2006. Earlier application is permitted as of the beginning of an investor's fiscal year, provided that the investor has not yet issued its first quarter financial statements for that fiscal year. An investor shall apply the guidance prospectively for all new life settlement contracts. At the date of adoption, an investor shall make a one-time irrevocable election to account for its currently held life settlement contracts on an instrument-by-instrument basis using either the fair value method or the investment method and recognize a cumulative-effect adjustment to beginning retained earnings. The disclosure requirements of this FSP shall be applied as of the most recent statement of financial position or income statement presented.

23. An investor shall disclose the following in the fiscal period of adoption in which a change in accounting principle is made:

- a. The nature of and reason for the change in accounting principle
- b. The cumulative effect of the change on retained earnings in the statement of financial position as of the date of adoption.

24. Financial statements of subsequent periods from the date of adoption need not repeat the disclosures required by paragraph 23 of this FSP.

# **Fair Value vs Actuarial Present Value**

Death Benefit	\$1,000.00
Purchase Price (% of DB)	20%
Annual Premium (% of DB)	4%
Insured age	80
Life Expectancy (Yrs)	7
Annual Increase in Value (1/LE)	14%

## **Life Settlement Cash Flows**

Year	Purchase Price	Premium	Death Benefit	Period Total	IRR	Life Expectancy	Fair Value*
1	\$ (200.00)	\$ (40.00)		\$ (240.00)		7	\$ 200.00
2		\$ (40.00)		\$ (40.00)		6	\$ 228.57
3		\$ (40.00)		\$ (40.00)		5	\$ 261.22
4		\$ (40.00)		\$ (40.00)		4	\$ 298.54
5		\$ (40.00)		\$ (40.00)		3	\$ 341.19
6		\$ (40.00)		\$ (40.00)		2	\$ 389.93
7		\$ (40.00)		\$ (40.00)		1	\$ 445.64
8		\$ (40.00)	\$1,000.00	\$ 960.00	13.40%		
9							
10							
							Earnings
							FV-Premium
						1	\$ (11.43)
						2	\$ (7.35)
						3	\$ (2.68)
						4	\$ 2.65
						5	\$ 8.74
						6	\$ 15.70
						7	
						8	
						9	
						10	

\* Fair Value = Purchase Price x Annual increase in value

\*\* Actuarial Present Value - see accompanying tables

## **Actuarial**

Present Value**	Age
\$ 777.05	80
\$ 788.20	81
\$ 799.05	82
\$ 809.55	83
\$ 819.65	84
\$ 829.31	85
\$ 838.51	86

# Death Probability Per Period for Male Aged

80

Age	Death Probability (1)	Number of Lives (2)	Life Expect.	80 yr old pool		Adjusted Death Probability (3)	Present Value Factor		Death Benefit \$ 1,000.00
				Aggregate Deaths	Aggregate Death Prob		Rate	3.50%	
							Period	Factor	Actuarial Present Value \$ 777.05
80	0.075760	42,221	7.23	-	0.0000000	0.0757600	1	0.96618	\$ 73.20
81	0.083288	39,023	6.78	3,198	0.0757443	0.0769781	2	0.93351	\$ 71.86
82	0.091713	35,772	6.35	6,449	0.1527439	0.0777049	3	0.90194	\$ 70.09
83	0.101108	32,492	5.94	9,729	0.2304304	0.0778084	4	0.87144	\$ 67.81
84	0.111468	29,207	5.55	13,014	0.3082352	0.0771078	5	0.84197	\$ 64.92
85	0.122752	25,951	5.18	16,270	0.3853533	0.0754484	6	0.81350	\$ 61.38
86	0.134930	22,765	4.84	19,456	0.4608133	0.0727532	7	0.78599	\$ 57.18
87	0.147987	19,694	4.52	22,527	0.5335497	0.0690269	8	0.75941	\$ 52.42
88	0.161928	16,779	4.21	25,442	0.6025911	0.0643522	9	0.73373	\$ 47.22
89	0.176773	14,062	3.93	28,159	0.6669430	0.0588760	10	0.70892	\$ 41.74
90	0.192542	11,576	3.67	30,645	0.7258236	0.0527919	11	0.68495	\$ 36.16
91	0.209250	9,347	3.42	32,874	0.7786173	0.0463263	12	0.66178	\$ 30.66
92	0.226904	7,392	3.20	34,829	0.8249212	0.0397231	13	0.63940	\$ 25.40
93	0.245500	5,714	2.99	36,507	0.8646645	0.0332266	14	0.61778	\$ 20.53
94	0.265023	4,311	2.80	37,910	0.8978944	0.0270631	15	0.59689	\$ 16.15
95	0.284534	3,169	2.63	39,052	0.9249426	0.0213551	16	0.57671	\$ 12.32
96	0.303801	2,267	2.48	39,954	0.9463063	0.0163135	17	0.55720	\$ 9.09
97	0.322578	1,578	2.34	40,643	0.9626252	0.0120594	18	0.53836	\$ 6.49
98	0.340612	1,069	2.21	41,152	0.9746808	0.0086260	19	0.52016	\$ 4.49
99	0.357642	705	2.10	41,516	0.9833021	0.0059723	20	0.50257	\$ 3.00
100	0.375525	453	1.99	41,768	0.9892707	0.0040282	21	0.48557	\$ 1.96
101	0.394301	283	1.88	41,938	0.9932972	0.0026413	22	0.46915	\$ 1.24
102	0.414016	171	1.78	42,050	0.9959499	0.0016798	23	0.45329	\$ 0.76
103	0.434717	100	1.68	42,121	0.9976315	0.0010336	24	0.43796	\$ 0.45
104	0.456452	57	1.58	42,164	0.9986500	0.0006135	25	0.42315	\$ 0.26
105	0.479275	31	1.49	42,190	0.9992658	0.0003501	26	0.40884	\$ 0.14
106	0.503239	16	1.40	42,205	0.9996210	0.0001914	27	0.39501	\$ 0.08
107	0.528401	8	1.32	42,213	0.9998105	0.0000999	28	0.38165	\$ 0.04
108	0.554821	4	1.24	42,217	0.9999053	0.0000494	29	0.36875	\$ 0.02
109	0.582562	2	1.16	42,219	0.9999526	0.0000231	30	0.35628	\$ 0.01
110	0.611690	1	1.09	42,220	0.9999763	0.0000101	31	0.34423	\$ 0.00
111	0.642274	-	1.02	42,221	1.0000000	0.0000041	32	0.33259	\$ 0.00
112	0.674388	-	0.95	42,221	1.0000000	0.0000016	33	0.32134	\$ 0.00
113	0.708107	-	0.89	42,221	1.0000000	0.0000005	34	0.31048	\$ 0.00
114	0.743513	-	0.82	42,221	1.0000000	0.0000002	35	0.29998	\$ 0.00
115	0.780688	-	0.76	42,221	1.0000000	0.0000000	36	0.28983	\$ 0.00
116	0.819722	-	0.71	42,221	1.0000000	0.0000000	37	0.28003	\$ 0.00
117	0.860709	-	0.65	42,221	1.0000000	0.0000000	38	0.27056	\$ 0.00
118	0.903744	-	0.60	42,221	1.0000000	0.0000000	39	0.26141	\$ 0.00
119	0.948931	-	0.55	42,221	1.0000000	0.0000000	40	0.25257	\$ 0.00

1.0000000

1. Probability of dying within one year.

2. Number of survivors out of 100,000 born alive.

3. Probability of dying during a given period for male aged 80

(takes into account his survival in prior periods)

Source: SSA Period Life Table, 2000

Experience	affects next year's calculation	
either	payout	100% boosts assets
or	reduced life expectancy	
	increased pv factor	times death benefit
both increase actuarial value of asset		

**Death Probability Per Period for Male Aged**

**81**

Death Probability Per Period for Male Aged				81			Present Value		Death Benefit
				81 yr old pool		Adjusted Death Probability (3)	Factor		\$ 1,000.00
Age	Death	Number	Life	Aggregate Deaths	Aggregate Death Probl		Rate	3.50%	Actuarial Present Value
	Probability (1)	of Lives (2)	Expect.				Period	Factor	
80									\$ -
81	0.083288	39,023	6.78	-	0.0000000	0.0832880	1	0.966184	\$ 80.47
82	0.091713	35,772	6.35	3,251	0.0833098	0.0840744	2	0.933511	\$ 78.48
83	0.101108	32,492	5.94	6,531	0.1673628	0.0841863	3	0.901943	\$ 75.93
84	0.111468	29,207	5.55	9,816	0.2515440	0.0834284	4	0.871442	\$ 72.70
85	0.122752	25,951	5.18	13,072	0.3349819	0.0816329	5	0.841973	\$ 68.73
86	0.134930	22,765	4.84	16,258	0.4166261	0.0787168	6	0.813501	\$ 64.04
87	0.147987	19,694	4.52	19,329	0.4953233	0.0746851	7	0.785991	\$ 58.70
88	0.161928	16,779	4.21	22,244	0.5700228	0.0696271	8	0.759412	\$ 52.88
89	0.176773	14,062	3.93	24,961	0.6396484	0.0637021	9	0.733731	\$ 46.74
90	0.192542	11,576	3.67	27,447	0.7033544	0.0571193	10	0.708919	\$ 40.49
91	0.209250	9,347	3.42	29,676	0.7604746	0.0501237	11	0.684946	\$ 34.33
92	0.226904	7,392	3.20	31,631	0.8105733	0.0429792	12	0.661783	\$ 28.44
93	0.245500	5,714	2.99	33,309	0.8535735	0.0359502	13	0.639404	\$ 22.99
94	0.265023	4,311	2.80	34,712	0.8895267	0.0292815	14	0.617782	\$ 18.09
95	0.284534	3,169	2.63	35,854	0.9187915	0.0231056	15	0.596891	\$ 13.79
96	0.303801	2,267	2.48	36,756	0.9419061	0.0176507	16	0.576706	\$ 10.18
97	0.322578	1,578	2.34	37,445	0.9595623	0.0130479	17	0.557204	\$ 7.27
98	0.340612	1,069	2.21	37,954	0.9726059	0.0093331	18	0.538361	\$ 5.02
99	0.357642	705	2.10	38,318	0.9819337	0.0064618	19	0.520156	\$ 3.36
100	0.375525	453	1.99	38,570	0.9883915	0.0043583	20	0.502566	\$ 2.19
101	0.394301	283	1.88	38,740	0.9927479	0.0028578	21	0.485571	\$ 1.39
102	0.414016	171	1.78	38,852	0.9956180	0.0018175	22	0.469151	\$ 0.85
103	0.434717	100	1.68	38,923	0.9974374	0.0011183	23	0.453286	\$ 0.51
104	0.456452	57	1.58	38,966	0.9985393	0.0006637	24	0.437957	\$ 0.29
105	0.479275	31	1.49	38,992	0.9992056	0.0003788	25	0.423147	\$ 0.16
106	0.503239	16	1.40	39,007	0.9995900	0.0002071	26	0.408838	\$ 0.08
107	0.528401	8	1.32	39,015	0.9997950	0.0001080	27	0.395012	\$ 0.04
108	0.554821	4	1.24	39,019	0.9998975	0.0000535	28	0.381654	\$ 0.02
109	0.582562	2	1.16	39,021	0.9999487	0.0000250	29	0.368748	\$ 0.01
110	0.611690	1	1.09	39,022	0.9999744	0.0000110	30	0.356278	\$ 0.00
111	0.642274	-	1.02	39,023	1.0000000	0.0000045	31	0.344230	\$ 0.00
112	0.674388	-	0.95	39,023	1.0000000	0.0000017	32	0.332590	\$ 0.00
113	0.708107	-	0.89	39,023	1.0000000	0.0000006	33	0.321343	\$ 0.00
114	0.743513	-	0.82	39,023	1.0000000	0.0000002	34	0.310476	\$ 0.00
115	0.780688	-	0.76	39,023	1.0000000	0.0000000	35	0.299977	\$ 0.00
116	0.819722	-	0.71	39,023	1.0000000	0.0000000	36	0.289833	\$ 0.00
117	0.860709	-	0.65	39,023	1.0000000	0.0000000	37	0.280032	\$ 0.00
118	0.903744	-	0.60	39,023	1.0000000	0.0000000	38	0.270562	\$ 0.00
119	0.948931	-	0.55	39,023	1.0000000	0.0000000	39	0.261413	\$ 0.00

1.000000000

1. Probability of dying within one year.

2. Number of survivors out of 100,000 born alive.

3. Probability of dying during a given period for male aged **81**

(takes into account his survival in prior periods)

Source: SSA Period Life Table, 2000

<u>Experience</u>	affects next year's calculation	
either	payout	100% boosts assets
or	reduced life expectancy	
	increased pv factor	times death benefit
<u>both increase actuarial value of asset</u>		

**Death Probability Per Period for Male Aged 82**

				82 yr old pool		Adjusted Death Probability (3)	Present Value Factor		Actuarial Present Value \$ 799.05
Age	Death	Number of Lives (2)	Life Expect.	Aggregate Deaths	Aggregate Death Prob		Rate	3.50%	
	Probability (1)						Period	Factor	
80									\$ -
81									\$ -
82	0.091713	35,772	6.35	-	0.0000000	0.0917130	1	0.96618	\$ 88.61
83	0.101108	32,492	5.94	3,280	0.0916918	0.0918351	2	0.93351	\$ 85.73
84	0.111468	29,207	5.55	6,565	0.1835234	0.0910083	3	0.90194	\$ 82.08
85	0.122752	25,951	5.18	9,821	0.2745443	0.0890497	4	0.87144	\$ 77.60
86	0.134930	22,765	4.84	13,007	0.3636084	0.0858686	5	0.84197	\$ 72.30
87	0.147987	19,694	4.52	16,078	0.4494577	0.0814706	6	0.81350	\$ 66.28
88	0.161928	16,779	4.21	18,993	0.5309460	0.0759531	7	0.78599	\$ 59.70
89	0.176773	14,062	3.93	21,710	0.6068993	0.0694898	8	0.75941	\$ 52.77
90	0.192542	11,576	3.67	24,196	0.6763949	0.0623089	9	0.73373	\$ 45.72
91	0.209250	9,347	3.42	26,425	0.7387063	0.0546777	10	0.70892	\$ 38.76
92	0.226904	7,392	3.20	28,380	0.7933579	0.0468841	11	0.68495	\$ 32.11
93	0.245500	5,714	2.99	30,058	0.8402661	0.0392165	12	0.66178	\$ 25.95
94	0.265023	4,311	2.80	31,461	0.8794867	0.0319418	13	0.63940	\$ 20.42
95	0.284534	3,169	2.63	32,603	0.9114112	0.0252049	14	0.61778	\$ 15.57
96	0.303801	2,267	2.48	33,505	0.9366264	0.0192543	15	0.59689	\$ 11.49
97	0.322578	1,578	2.34	34,194	0.9558873	0.0142334	16	0.57671	\$ 8.21
98	0.340612	1,069	2.21	34,703	0.9701163	0.0101810	17	0.55720	\$ 5.67
99	0.357642	705	2.10	35,067	0.9802918	0.0070489	18	0.53836	\$ 3.79
100	0.375525	453	1.99	35,319	0.9873365	0.0047543	19	0.52016	\$ 2.47
101	0.394301	283	1.88	35,489	0.9920888	0.0031174	20	0.50257	\$ 1.57
102	0.414016	171	1.78	35,601	0.9952197	0.0019826	21	0.48557	\$ 0.96
103	0.434717	100	1.68	35,672	0.9972045	0.0012199	22	0.46915	\$ 0.57
104	0.456452	57	1.58	35,715	0.9984066	0.0007241	23	0.45329	\$ 0.33
105	0.479275	31	1.49	35,741	0.9991334	0.0004132	24	0.43796	\$ 0.18
106	0.503239	16	1.40	35,756	0.9995527	0.0002259	25	0.42315	\$ 0.10
107	0.528401	8	1.32	35,764	0.9997764	0.0001179	26	0.40884	\$ 0.05
108	0.554821	4	1.24	35,768	0.9998882	0.0000584	27	0.39501	\$ 0.02
109	0.582562	2	1.16	35,770	0.9999441	0.0000273	28	0.38165	\$ 0.01
110	0.611690	1	1.09	35,771	0.9999720	0.0000120	29	0.36875	\$ 0.00
111	0.642274	-	1.02	35,772	1.0000000	0.0000049	30	0.35628	\$ 0.00
112	0.674388	-	0.95	35,772	1.0000000	0.0000018	31	0.34423	\$ 0.00
113	0.708107	-	0.89	35,772	1.0000000	0.0000006	32	0.33259	\$ 0.00
114	0.743513	-	0.82	35,772	1.0000000	0.0000002	33	0.32134	\$ 0.00
115	0.780688	-	0.76	35,772	1.0000000	0.0000001	34	0.31048	\$ 0.00
116	0.819722	-	0.71	35,772	1.0000000	0.0000000	35	0.29998	\$ 0.00
117	0.860709	-	0.65	35,772	1.0000000	0.0000000	36	0.28983	\$ 0.00
118	0.903744	-	0.60	35,772	1.0000000	0.0000000	37	0.28003	\$ 0.00
119	0.948931	-	0.55	35,772	1.0000000	0.0000000	38	0.27056	\$ 0.00

1.000000000

1.000000000

1. Probability of dying within one year.

2. Number of survivors out of 100,000 born alive.

3. **Probability of dying during a given period for male aged 82**  
(takes into account his survival in prior periods)

Source: SSA Period Life Table, 2000

<u>Experience</u>	affects next year's calculation	
either	payout	100% boosts assets
or	reduced life expectancy	
	increased pv factor	times death benefit
<u>both increase actuarial value of asset</u>		